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# GERMANY'S FINANCIAL MOBILIZATION

## SUMMARY

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## I

### INTRODUCTORY

As a preliminary to the following discussion of the financial measures which Germany resorted to at the outbreak of the war, it will be necessary, in order to obtain a clear understanding of the situation, to review briefly the course of development of German banking policy during the last decade.

The rapid industrial and commercial progress achieved by the Empire almost continuously since the middle of the nineties was naturally followed by severe strain on credit resources which failed to allow for the possibilities of a political crisis. When in 1905, however, the first differences arose between France and Germany over the Morocco affair, the German Government became aware of the dangers of such a heavy strain upon its monetary and credit system, and the problem of a financial mobilization was at once taken

up. The efforts of the responsible officials were probably stimulated by the Reichsbank, whose directors were best in a position to discern the effects of political events upon the money market and who realized that the German currency system rested on a metallic foundation far from strong enough to withstand successfully a great crisis. And apart from these circles, there were many other prominent men able to define their attitude regarding this very important question; they put before the public valuable essays on the subject of financial mobilization.

These facts should be borne in mind in order to understand the course of German banking legislation since 1906 and the banking policy of the German Reichsbank. The first step was to grant the Reichsbank the privilege (Law of February 20, 1906) of issuing banknotes in denominations of M. 50 and M. 20.<sup>1</sup> The purpose of this legislation was admittedly to replace a part of the precious gold in circulation by small bills, or to meet a part of the need for gold coin with the issue of smaller notes; as a result gold would flow in greater amounts into the Reichsbank. On June 5, 1906, another statute was passed according to which the Reichskassenscheine (treasury notes) were to be issued in denominations of M. 10, replacing those of M. 20 and M. 50.<sup>2</sup>

<sup>1</sup> Heretofore the smallest denomination had been M 100, as provided for in the Bank Law of March, 1875

<sup>2</sup> These treasury notes are the only paper money issued by the German Empire. They were created by a law passed April 30, 1874, when the maximum amount was fixed at M 120 millions. To increase the imperial war chest of gold, which amounted since 1871 also to M 120 millions, it was ruled on July 3, 1913, to issue a further 120 millions of Reichskassenscheine. Up to the end of July, 1914, about 85 millions of this new issue had been put into circulation, and the war chest had been accordingly increased, the total amount of gold in the chest (205 millions) was promptly delivered to the Reichsbank for the credit of the Empire at the outbreak of the war. On March 22, 1915, a new bill was passed providing for the issue of a further 120 millions Reichskassenscheine in denominations of M 10. This new issue, however, is to be entirely covered either by Darlehnskassenscheine or by currency. It is to be with-

In 1908, when the time approached to renew the charter of the Reichsbank, an official inquiry was held with the purpose of disclosing all means and ways to help in the policy of strengthening the German monetary system. The six questions propounded to the authorities finally sifted down to one: how was the position of the Reichsbank to become stronger in the future? This official inquiry resulted directly in the passing of the bank act of June 1, 1909. In Article 3 of this act the notes of the Reichsbank were declared "legal tender"<sup>1</sup> a quality they had not possessed before. By this provision the public was to grow accustomed to considering the Reichsbank notes "as good as gold."

Simultaneously with this legislation, which had in view the strengthening of the Reichsbank, German banking policy was extended to the private joint stock banks. The government fully realized that an improvement in the German credit system could only be achieved by finding a way to induce these institutions to use more restraint and discretion in the granting of new credit. In view of the fact that the country owed its great economic development largely to the stimulating influence of the private stock banks, a destructive legislation against these useful institutions was considered inadvisable. Therefore an attempt was made

drawn later and replaced by Reichsbank notes of the same denominations, the issue of which is already provided for in the same bill

<sup>1</sup> As the American definitions of "lawful money" and "legal tender" differ from those customary on the Continent, it may be stated that in Europe the term "lawful money" implies the *unit standard*, — either the unit standard coin, or government notes, or banknotes *not* convertible into coin, according to the respective monetary legislation. The term "legal tender" is applied only to such government notes or banknotes as have been declared by law to be instruments of payment, but which are upon demand redeemable in gold. For instance, the notes of the Bank of France and of the Reichsbank, previously "legal tender" notes, became "lawful money" at the outbreak of the European war, when these banks by special legislation were released from their obligation to redeem the notes in specie. The notes of the Bank of England, however, remained legal tender notes, for the bank continued to redeem them in gold.

to influence the banks by other means. This was accomplished in two ways. In the first place the banks were compelled to publish a so-called "Zwischen-Bilanz" (intermediate balance sheet) every two months, instead of once a year as heretofore. The purpose was to subject the banks in their conduct of business more fully to public criticism. The measure was to act as a restraint upon the banks, in view of possible political conflicts. In the second place, the Reichsbank requested all banks to increase their "Giro-Guthaben" (deposits) with it, thus increasing its own working capital as well as the bank's cash reserves.

Owing to this far-sighted policy credit conditions in Germany improved materially. The money which had been borrowed for short terms from foreign countries, particularly from France, was repaid, and the proportion between cash available and short term obligations considerably increased. Such a development was doubtless favored by the slackening of business in Germany after the end of 1912, which would in any case have caused an increase in the banks' cash on hand.

Apart from the improvement in the monetary and credit conditions the German Government also succeeded in enhancing its own resources by adequate tax measures. These measures resulted in the passing of the well-known tax law of June 3, 1913, authorizing what was expressly called an extraordinary "Wehrbeitrag" (contribution for the country's defence). The total yield of this tax had been estimated at approximately M. 1,200 millions, to be collected in three annual instalments. Up to the middle of the year 1914 the receipts had aggregated about M. 300 millions.

## II

## THE FOUR WAR MEASURES

It will be seen that at the beginning of August, 1914, Germany was in a comparatively favorable monetary situation. But in addition to these precautionary measures, the government, in order to complete the financial mobilization, had carefully prepared a number of bills to be enacted at the outbreak of a war. They were brought before the Reichstag on August 4, and were unanimously accepted in one meeting.

Let it be premised that the coinage act of July 9, 1873, by which Germany had adopted the gold standard, prescribed the acceptance of subsidiary money up to M. 20, of minor coin up to M. 1. The coinage act moreover obliged the Treasury to exchange upon demand any amount of such minor coin for gold. Such provisions could of course not be maintained during a European war, as care had to be taken to prevent an outflow of gold.

The desired results, then, were brought about by the following acts:—

1. (Law 4448.) *Act respecting Notes (Reichskassenscheine and Banknotes)*

The Reichskassenscheine, whose acceptance had heretofore not been compulsory, were proclaimed “lawful money” (see footnote, p. 726). At the same time the Reichsbank notes were made “lawful money,” by the provision that the Reichsbank should be released from its obligation to redeem the notes in gold. Consequently the Treasury was freed from the redemption of the outstanding Reichskassenscheine (sections I and II). In

order to protect the private note-issuing banks <sup>1</sup> against the loss of their gold reserves and to enable them to conduct their business during the war, these banks were allowed to redeem their notes with Reichsbank notes (section III).

## 2. (Law 4434.) *Amendment of the Coinage Act*

As mentioned above, the German coinage act of 1873 provided that the subsidiary and minor coins should be exchanged for gold upon demand. This provision was accordingly modified to the extent that the imperial Treasury, during the war, should be released from its obligation to exchange these coins for gold, but should be allowed to exchange them for Reichsbank notes and Reichskassenscheine.

## 3. (Law 4435.) *Amendment of the Bank Law*

The Reichsbank, in accordance with the historical function of a great central bank of issue, had always been regarded as an institution whose very purpose was to serve the country in time of war. In order to accomplish this important task it was necessary to place the Reichsbank in a position to cope with the extraordinary requirements. In section 17 of the Bank Law of March, 1875, it had been provided that the Reichsbank must keep as security against its circulating notes  $\frac{1}{3}$  in cash and  $\frac{2}{3}$  in short term bills of exchange bearing at least 2 names (double name paper). In order to enable the Reichsbank to grant extensive credits to the Empire this provision was changed. The Reichsbank received the permission to discount Treasury

<sup>1</sup> There still exist four private note-issuing banks in Germany, viz : The Bayerische Notenbank, the Sachsische Bank, the Badische Bank, and the Wurttembergische Notenbank.

bills <sup>1</sup> which matured not later than 3 months; and it was provided that the bank should be at liberty to consider, in addition to double name paper, such short term obligations of the empire and Imperial Treasury Bills as security within the meaning of section 17.

This act likewise repealed, for the duration of the war, the well-known provision for a 5 per cent tax upon the uncovered amount of circulating notes (exceeding 550 or 750 millions respectively). The deciding factor for this action probably was the consideration that at a time when the Reichsbank was increasing its note circulation in the interest of the Empire, there could be no reason for a tax tending to restrict note circulation.

#### 4. (Law 4446.) *Act respecting Darlehnskassen*

The acts just mentioned represent amendments of existing legislation in regard to currency and note-issuing banks. The other measures taken for the completion of the financial mobilization had no connection whatever with previous laws enacted in times of peace.

In order to relieve the Reichsbank and the joint stock banks, it was considered essential to create an institution to extend credit against collateral security. For this purpose loan banks (*Darlehnskassen*) were established throughout the country. Such *Darlehnskassen*, as a matter of fact, were not entirely unknown; they had already proved successful in Prussia in the wars and crises of 1848, 1866 and 1870. On the strength of its experiences during these periods, the government, in order to complete the war credit and currency system, again returned to this old and approved organization. The *Darlehnskassen* system was, of course,

<sup>1</sup> Another act (law 4333) expressly authorized the Treasury to issue such Imperial Treasury Bills



considerably developed, in accordance with the changed conditions of the present day. The leading idea was to strengthen as far as possible the position of the Reichsbank for the financial needs of the government. To accomplish this end, business had to be given an opportunity to satisfy its demands for credit elsewhere. Tho the great joint stock banks would unquestionably have come to the assistance of their clientèle in time of war, it was nevertheless deemed advisable to establish another organization with the sole object of meeting, in case of emergency, the urgent demands for credit. In close coöperation with the branch system of the Reichsbank, the Darlehnskassen were to be established in all cities in which the Reichsbank maintained a branch office and where there appeared to be a need for the facilities.

The Darlehnskassen were started without capital, in lieu of which they issue Darlehnskassenscheine (Loan-Bank notes). The act of August 4, 1914, provided for the issuing of a maximum amount of these Loan-Bank notes of M. 1,500 millions; an amendment to this act (November 11, 1914) increased the amount to M. 3,000 millions. It may be worth while to mention that so far the maximum amount of the Darlehnskassenscheine put in circulation has at no time reached the amount originally provided for, M. 1,500 millions. On December 31, 1914, the circulation totalled M. 1,317 millions, and gradually decreased to M. 760 millions on March 15, 1915. The Darlehnskassenscheine neither became lawful money nor were they declared legal tender. But the Reichsbank was authorized to include them in its legal cash reserves. Thereby it was intended to assure the possibility of extending the Reichsbank's issue power, in case its gold reserve should prove insufficient cover for its note circulation as provided for in section 17 of the fundamental bank law of 1875.

In practice the business of the Darlehnskassen is conducted as follows: they obtain banknotes from the Reichsbank against the issue of Darlehnskassenscheine, which are fully secured by the accepted security. On the strength of these Darlehnskassenscheine the Reichsbank is enabled to put into circulation three times the amount of its own notes.

The denominations of the Darlehnskassenscheine were at first M. 5, 10, 20 and 50. Later, notes of M. 1 and M. 2 were issued. While the smaller denominations are mostly in circulation, the larger ones are chiefly held by the Reichsbank. In the weekly statement of March 15, 1915 this institution showed a balance of M. 176 millions of Darlehnskassenscheine, from which it may be inferred that of the total issue (at that time M. 760 millions as previously stated) M. 584 millions were in active circulation.

### III

#### THE REICHSBANK

As previously remarked, the Reichsbank for years had heeded closely the possibility of political imbroglios and was accordingly prepared for the outbreak of the war. The course of financial events immediately preceding and following the beginning of hostilities may be briefly described as follows.

During the last days of July, 1914, the public became alarmed and began to exchange Reichsbank notes for gold. The Reichsbank at first satisfied such demands, but very soon restricted itself to paying out only subsidiary coins. After July 31, the bank entirely discontinued redeeming its banknotes, this step probably having already met with the approval of the government. The measures taken by it received full legal

sanction when the Reichstag met on August 4, 1914. The refusal on the part of the Reichsbank to redeem its notes in gold might easily have increased the alarm of the public, had the bank not enlightened the people by using the daily press, and had it not at the same time freely discounted bills of its customers, so that these were not experiencing difficulties in meeting their own obligations. The increase in the amount of bills discounted by M. 1,330 millions during the week from July 23 to July 31 is the best evidence of the far-reaching assistance rendered by the Reichsbank at that period. Further, it granted loans against collateral in a liberal manner, revising for this purpose the list of securities which could be pledged. Whereas in time of peace only imperial issues or those of the several states, municipal bonds, and land-mortgage bonds had been accepted as collateral, the list was extended to include all domestic securities listed on German stock exchanges. At the same time the Reichsbank prepared to open the Darlehnskassen mentioned above. Upon these institutions was to devolve later the task of granting credit against pledge of securities and non-perishable merchandise.

The further development of the financial state of affairs may best be followed up by reference to the weekly statements of the Reichsbank. They are tabulated in Appendix II to the paper, for the period from July 15, 1914 to March 15, 1915. In the first week of August, 1914 the item "Commercial paper and Treasury bills" shows an increase by M. 1,565 millions. According to official information, about M. 750 millions of this amount represent requirements of the government for military payments. As financial and business concerns felt apprehensions regarding the possibility of a sudden discontinuance of credit facili-

ties, they were naturally anxious to secure large credit balances with the Reichsbank. But they were not in immediate need of cash, and the proceeds of discounted bills therefore chiefly remained with the bank, as is shown by the increase in deposits. Since, moreover, the stock of gold was at the same time considerably raised through the imperial war chest,<sup>1</sup> the Reichsbank could meet the enormous demands without permitting the cover for the circulating notes to drop below the minimum proportion of  $33\frac{1}{3}$  per cent in cash (gold in bullion and coin, Reichskassenscheine, and Darlehnskassenscheine). Taking into consideration the cover in gold alone, we find that the security in that metal was 37.9 per cent for the period mentioned. The percentage dropped only once below this figure (to 36.7 per cent) on August 22, 1914. After that time the percentage steadily improved, and reached 42.9 per cent on March 15, 1915. This favorable result was brought about mainly by the fact that the Reichsbank could continue to draw gold from circulation and replace it by small banknotes. As stated above, this policy dates back as far as 1906 and has undoubtedly during the last few years been the chief means of increasing the gold stock in the Reichsbank's vaults. The gold reserve amounted on

July 23, 1911 to M.	917.2	millions
" 23, 1912 " "	979.0	"
" 23, 1913 " "	1,156.7	"
" 23, 1914 " "	1,356.8	"

A few days previous to the outbreak of the war the amount of gold on hand dropped as low as M. 1,253.2 millions. But from the beginning of August the stock continually increased, and on March 15, 1915 it rose

<sup>1</sup> See p. 725, note 2.

to the enormous amount of M. 2,300 millions. It is obvious that only by means of such a large increase in the gold reserve could the Reichsbank expand its note circulation without jarring the foundation of the German monetary system.

While it is undoubtedly true that the Reichsbank was enabled to *maintain* its gold reserve by its refusal since August 1st to redeem the notes in gold, the considerable *increase* in its gold reserve could not have been accomplished without the assistance of the entire public. There was no other means by which the gold held by individuals and in circulation could have been concentrated with the Reichsbank. Through the press the public was consistently educated in regard to the exchange of banknotes, and it came to be looked upon as a national duty to deposit the gold with the Reichsbank and receive its notes therefor. Gradually this idea became national and was taken up by all classes of the population. Churches and schools participated in the movement, and this is the only explanation of the fact that the Reichsbank was able to increase its gold reserve since the beginning of the war by more than 1,000 million of marks without importing gold. An opinion regarding this increase in the Reichsbank's gold reserve would have little value, so far as the present is concerned. As regards the future, however, it cannot be overestimated. This large gold reserve will materially facilitate the reestablishment of normal monetary conditions as soon as peace has been restored. Aside from this fact, the willingness of the population to sacrifice precious metal for paper money in hard war times will constitute a unique case in banking and financial history. The psychological explanation is unquestionably the great confidence and trust enjoyed by the Reichsbank ever since its establishment.

Owing to the constant withdrawal of gold from circulation, the banknotes of small denominations (issued in accordance with the act of 1906, as previously explained) were destined to play a particularly important part. On June 30, 1914 the total circulation of small banknotes amounted to M. 651.7 millions; on July 30, 1914 it had already increased to M. 812.6 millions. On March 15, 1915 the total amount of banknotes (large and small denominations) in circulation was M. 4,937 millions, which included not less than M. 2,161 millions small notes (M. 50 and 20) representing about 44 per cent of the total.

The item "Commercial paper and Treasury bills" contained in the Reichsbank's weekly statements clearly reflects the effect brought about by supplying the financial needs of the Empire. Inasmuch as the business concerns had satisfied their credit requirements during the few days preceding the outbreak of war, it stands to reason that they found more funds at their disposal when the situation was cleared than were needed for business. On the other hand, until the first war loan was issued, it was the Reichsbank's paramount obligation to provide the Empire with the funds necessary for conducting the war. As a consequence the item "Commercial paper and Treasury bills" increased constantly, until it reached its highest point on September 30, with M. 4,755.8 millions. According to official information Treasury bills alone amounted at that time to M. 2,300 millions. When the first instalment of the war loan, due on October 5, was paid in, the Treasury took in M. 2,420 millions, which amount was largely applied for the payment of Treasury bills discounted with the Reichsbank. Reference to the bank's weekly statements will substantiate this, for the total of "Commercial paper and Treasury bills" decreased from

M. 4,756 millions on September 30 to M. 2,643 millions on October 7. It is probable that the government contributed at least M. 2,000 millions to this decrease. The amount may have been even larger, because some of the subscribers to the war loan probably discounted bills at the Reichsbank in order to raise the required funds.

The subsequent rise of the item "Commercial paper and Treasury bills" viz. from M. 2,643 millions on November 7, 1914 to M. 4,437 millions on March 15, 1915 was undoubtedly caused by new financial requirements of the Empire. These figures illustrate that the Reichsbank is the center of the entire financial mobilization in Germany.

#### IV

##### THE IMPERIAL LOAN BANKS (DARLEHNSKASSEN)

The Darlehnskassen have so far accomplished their object in every way. They have relieved the imperial Reichsbank, and at the same time offered an opportunity, especially to business concerns, of receiving advances on security upon which in ordinary periods money could be raised only with difficulty. Since granting loans on the part of the Darlehnskassen implies automatically an increase in the circulation of Reichsbank notes, as explained above, the loan banks in their desire to prevent a dangerous depreciation of the paper money, grant loans solely in cases where the real value of the security offered is commensurate with the amount applied for. On the other hand, the regulations of the loan banks respecting acceptable security were made very comprehensive. In addition to stocks, bonds, and raw products, "all non-perishable merchandise" is

eligible. But notwithstanding these easier conditions for obtaining credit facilities, full precautions are taken, inasmuch as only marketable goods and merchandise of probably lasting value are accepted. Furthermore, loans are granted only up to 50 per cent or at best up to two-thirds of the appraised value of the security. One must also take into consideration that the borrowers are liable to the Darlehnskassen with their entire property for the repayment of the loans. This explains the fact that the Darlehnskassen as a matter of principle grant loans only to reliable firms or parties deserving credit. The intrinsic value of the Darlehnskassenscheine can therefore hardly be doubted. The precautions dictated by a due regard for the quality of the paper-money resulted in a smaller volume of business for the Darlehnskassen than the authorities may have expected. According to official statements only M. 226.6 millions had been paid out from August 5 to September 23, 1914. For the period from September 23 to October 7, 1914, however, new loans to the amount of M. 850.1 millions were reported. On October 7, 1914, M. 710.4 millions (or 63.7 per cent out of M. 1,115.7 millions) were apportioned to loans granted on subscriptions to the first war loan. At the end of October not more than M. 332.6 millions had been borrowed on other security and on merchandise. On March 15, 1915, the larger part of the loans granted against these subscriptions having been repaid, the total amount of the outstanding loans was only M. 583 millions. These figures do not in themselves evidence a lesser importance of the Darlehnskassen, which became evident again in connection with the financing of the second war loan. The subscriptions to this amounted to M. 9 billions, and some of the subscribers without question called upon the Darlehnskassen for assistance when the various instalments



became due.<sup>1</sup> Under these circumstances the great joint stock banks are considerably relieved, not being obliged to withhold otherwise available credits from the business world.

## V

### WAR CREDIT BANKS

The perfectly justified precautions taken by the Darlehnskassen in connection with their loans made it necessary, however, to add to the organization for credit facilities during the war another institution. In Germany business to a very large extent is based upon receiving and granting credit. The disturbances in business caused by the war were bound to make themselves felt, especially with concerns which had at their disposal neither sufficient bank credit nor pledgeable security. Their situation was critical in so far as, on the one hand, they had to meet maturing obligations for materials, supplies received, work performed by others, especially wages, as well as the requirements for maintenance of the business; on the other hand they had to reckon with bad debts, cancellation of orders and cessation of regular earnings. The difficulties thus faced by many business houses through no fault of their own could not, of course, all be removed simply by credits granted to them by the Reichsbank, the Darlehnskassen or by private banks. Either the security available was insufficient or the required indorsements

<sup>1</sup> The first instalment of the new war loan became due April 14. There were paid in about 6 billions instead of 3.4 billions as required according to the terms of subscription. To judge from the statement of the Darlehnskassen these institutions may have contributed temporarily about M. 1.2 billions of these 6 billions, for the amount of loans granted by them increased from M. 344.6 to M. 1,573 millions during the week April 7 to April 14. Of the latter amount M. 521 millions were granted against hypothecation of the new war loan warrants. In accordance herewith the amount of Darlehnskassenscheine by the Reichsbank rose from M. 165 millions on March 22 to M. 932 millions on April 15.

of their bills were wanting. Under the circumstances, it was deemed advisable to create an institution of an intermediary character, which would bear the greater share of the risks involved. The so-called War Credit Banks are designed to serve this purpose. They were established throughout the country, have their own capital, and the obligations undertaken by them are guaranteed, and losses, if any, refunded, by the respective municipalities and commercial associations. The War Credit Bank of Greater Berlin, for instance, was established with a capital of 18 millions of marks, of which 25 per cent are fully paid in. In addition thereto, there is a liability of 11.5 million marks by official bodies or commercial organizations.

Inasmuch as the officers of the War Credit Banks are in close touch with local conditions and are known to be extremely careful and scrutinizing in their investigations, the Reichsbank did not hesitate to declare its willingness to discount the bills of these War Credit Banks up to an amount aggregating 3 to 5 times the amount of their capital stock.

Another type of War Credit Bank was established on a coöperative basis, with the special object in view of assisting the German middle classes. The smaller communities were particularly interested in these latter institutions, as they were designed chiefly to assist during the critical periods those whose financial strength was temporarily insufficient to bear the heavy burdens imposed by the war.

The entire organization in Germany, then, for credit facilities during the war may be summarized as follows.

Owing to well planned modifications of the German bank act, the Reichsbank may now be looked upon as a War Credit Bank on a large scale. By releasing the bank from its obligation to redeem its notes in gold,

the government as well as commercial and industrial concerns were enabled to obtain the required credit facilities, and the issue of the first war loan could be postponed until its success was warranted by the condition of the German money market and until private banking institutions had been supplied with sufficient funds to insure the continuance of unimpaired credit facilities for Germany's commerce and industries.

By establishing the *Darlehnskassen* the German credit system was suitably extended to supply all requirements, and the possibility of investment of the Reichsbank's funds in non-liquid collateral loans was forestalled. As the Reichsbank was further authorized to treat *Darlehnskassenscheine* as cash security within the meaning of section 17 of the bank act (requiring one-third cash against notes outstanding) the granting of credit facilities by the *Darlehnskassen* automatically tended to increase and extend the efficiency of the Reichsbank. It is true that the Reichsbank's gold reserve itself has so far been sufficient cover for its note circulation as prescribed by law; this new provision, however, created a second reserve in the event of an unusually large expansion of the Reichsbank's note circulation.

Finally, the financially weaker concerns for whom the stringency of war times would have meant economic ruin are taken care of by Germany's financial mobilization, support being extended to them by the newly organized War Credit Banks.

It is due to this carefully planned and admirable organization that Germany alone of all the countries at war was able to do without a moratorium, thereby preventing a stand-still of her national trade, commerce and industries, and retaining her commercial and economic powers almost unimpaired in spite of the war.

## VI

## FOREIGN EXCHANGE

The success attending these measures has failed to be appreciated in foreign countries, because of the undue importance ascribed to the rates of foreign exchange. The financial status of a country is customarily judged by the rates prevailing in other countries for its exchange. The unfavorable movement of the German exchange since the outbreak of the war was regarded abroad as a sign of weakness in Germany's financial status. Such an opinion, however, does not pay adequate attention to the various causes of the decline in the German exchange rates in foreign countries. It must be considered that, like all other European countries with an active industrial and commercial life, Germany already had an international "debit" balance of trade in times of peace. During the last five years, the export and import figures compare as follows:—

	<i>(Millions of Marks)</i>				
	1913	1912	1911	1910	1909
Imports . . . . .	10,770	10,692	9,706	8,934	8,527
Exports . . . . .	10,097	8,957	8,106	7,475	6,594
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Excess of imports	673	1,735	1,600	1,459	1,933

It will be seen that despite considerably increased export figures in the year 1913, imports still exceeded exports by 673 millions of marks. The fact that German exchange was nevertheless quoted abroad at comparatively favorable rates must be attributed to her *invisible* balance of trade, which, in addition to regular interest and profit earnings out of foreign investments, consisted mainly of the enormous amounts due for

freight, mail and passenger traffic on her mercantile marine. At the outbreak of the war, this very important item of Germany's international trade balance was at once wiped out. Moreover, her exports decreased heavily, while she was still dependent upon foreign nations to furnish raw products and materials necessitated by the war. Thus her indebtedness to foreign nations was constantly increasing. For political reasons, the government could not permit gold exports to any considerable amount, and consequently the rates of foreign exchange are ruling strong in the German market. Despite these facts, however, the balance of trade cannot be looked upon as the sole cause for the important rise in the exchange rates. It may reasonably be assumed that sentiment has influenced the situation to a certain extent. It seems that in neutral countries, and particularly in the United States, which is at present leading in the international money market, the opinion and the belief still prevail that the final outcome of the European war will be in favor of the Allies. This consideration, tho but a psychological one, plays an important part in the fluctuations of the rates of exchange. The situation should not be underestimated, in view of the fact that the credit of a country is judged on the basis of its exchange quotations. If the bankers in the United States were to feel thoroly confident that Germany would be victorious, the low rate for German exchange would certainly induce them to buy German Reichsmarks, which in turn would mean an improvement in the exchange quotations. It is necessary to point out these facts in order to explain the apparent inconsistency between the above description of Germany's financial strength and the opinion thereof entertained abroad. If in foreign countries the judgment of Germany's financial status is a matter of per-

sonal sentiment which only the course of events will rectify, the fact remains that the financial measures here described produced in every respect the desired effect and put the country in a position to bear the burden of the terrible struggle with comparative comfort and ease.

We believe, in conclusion, that, just as the organization of the Reichsbank in time of peace has already for years been considered a model, Germany's financial measures in anticipation of this war and brought about by it will also set a standard for other countries, if events of such weight as Europe is passing through at present should ever occur again.

LUDWIG BENDIX.

## APPENDIX

## I

## STATISTICS ON WAR LOAN BANKS. ISSUES OF

## DARLEHNSKASSENSCHEINE

*(In million marks)*

	1914	In the Vaults of the Reichsbank	In Circulation	Total Amount Issued
August	7	about 60	10	about 70
"	15	" 97	13	" 110
"	22	99	31	130
"	31	173	70	243
September	7	" 150	95	" 245
"	15	147	108	255
"	23	143	123	266
"	30	334	144	478
October	7	949	167	1,116
"	15	829	186	1,015
"	23	737	210	947
"	31	865	245	1,110
November	7	859	262	1,121
"	14	758	279	1,037
"	23	594	300	894
"	30	739	324	1,063
December	7	687	345	1,032
"	15	622	368	990
"	23	749	400	1,149
"	31	871	446	1,317
	1915			
January	7	541	456	997
"	15	406	461	867
"	23	316	468	784
"	31	259	486	745
February	6	195	505	700
"	15	150	515	665
"	23	180	529	709
"	27	209	550	759
March	7	195	571	766
"	15	176	584	760

Date	ASSETS						LIABILITIES					
	Coin and Bullion		Reichskassen- and Darlehenskassenscheine	Commercial Paper and Treasury Bills	Loans	Securities	Reichsbank-notes in Circulation	Deposits	Ratio Between Gold on Hand, and			
	Total	Gold	Total	Darlehenskassenscheine			Total	Denominations of 50 and 20 Marks	I Notes in Circulat'n %	II Total Liabilities %		
July	15											
"	23	1,669	1,344	59	808	59	347	1,995	581	895	67.4	46.5
"	31	1,691	1,357	65	751	50	331	1,891	551	944	71.8	47.8
		1,528	1,253	33	2,081	202	396	2,909	813	1,258	43.0	30.0
August	7	1,596	1,478	97	about 60	226	194	3,897	1,383	1,879	37.9	25.6
"	15	1,590	1,509	127	" 97	181	201	3,882	1,451	2,552	38.8	23.5
"	22	1,596	1,530	119	100	163	209	4,000	1,465	2,620	38.2	23.1
"	31	1,607	1,556	183	173	105	163	4,235	1,578	2,441	36.7	23.3
September	7	1,620	1,580	160	150	109	117	4,138	1,584	2,419	38.2	24.1
"	15	1,653	1,621	156	147	119	90	4,054	1,566	2,494	39.9	24.7
"	23	1,704	1,676	149	143	125	80	3,993	1,562	2,709	41.9	25.0
"	30	1,737	1,716	336	334	31	106	4,491	1,780	2,351	38.2	25.1



October	7	1,789	1,771	949	945	3,300	43	98	4,199	1,758	1,915	42.9	28.9
"	15	1,825	1,802	833	829	2,975	32	74	4,061	1,742	1,571	44.4	32.0
"	23	1,858	1,828	742	737	2,929	27	82	3,968	1,726	1,555	46.1	33.1
"	31	1,890	1,858	870	866	2,773	36	38	4,171	1,827	1,305	44.6	33.9
November	7	1,922	1,885	859	855	2,643	33	35	4,085	1,821	1,282	46.2	35.1
"	14	1,956	1,916	758	754	2,770	31	33	4,060	1,807	1,357	47.2	35.4
"	23	1,994	1,949	600	595	2,887	35	30	4,009	1,781	1,416	48.6	35.9
"	30	2,036	1,991	743	739	2,932	36	28	4,205	1,870	1,397	47.4	35.5
December	7	2,061	2,019	691	687	3,036	45	26	4,230	1,901	1,485	47.7	35.3
"	15	2,097	2,052	628	622	3,071	64	295	4,275	1,905	1,714	48.0	34.2
"	23	2,117	2,075	754	749	3,656	47	36	4,432	1,968	2,054	46.8	32.0
"	31	2,130	2,093	875	871	3,937	23	34	5,046	2,128	1,757	41.5	30.8
1915													
January	7	2,153	2,112	547	541	3,802	64	31	4,779	2,065	1,630	44.2	32.9
"	15	2,177	2,130	414	406	3,770	39	19	4,592	2,008	1,642	46.4	34.2
"	23	2,197	2,145	324	316	3,720	41	16	4,484	1,968	1,625	47.8	35.1
"	30	2,214	2,164	265	259	3,784	42	16	4,659	2,056	1,453	46.4	35.4
February	6	2,241	2,195	200	194	3,860	42	16	4,672	2,074	1,451	47.0	35.9
"	15	2,276	2,229	154	147	3,862	41	15	4,637	2,028	1,498	48.1	36.3
"	23	2,303	2,254	189	180	4,027	37	16	4,635	2,021	1,724	48.6	35.4
"	27	2,314	2,271	216	209	4,095	43	18	4,863	2,140	1,581	46.7	35.2
March	6	2,335	2,294	204	196	4,261	37	25	4,905	2,166	1,712	46.8	34.7
"	15	2,358	2,316	186	177	4,437	37	57	4,937	2,161	1,896	46.9	33.9